

Year of Resourcefulness

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A. INTRODUCTION

Comrade Speaker,

It is my privilege to present this my first and the 20th annual Budget of the People's National Congress Government.

The annual Budget presentation has afforded many Ministers of Finance the opportunity to state forthrightly and unambiguously the economic strategies and associated organisational arrangements, and the rationale which underpins those strategies and arrangements.

In similar vein this Budget statement is neither intended to be merely a recitation of numbers, nor a simple recapitulation of the behaviour of, and prognoses for, traditional economic aggregates. It is concerned primarily with economic survival; with quality of life; with equity; and with the systemic changes necessary for the achievement of this independent nation's objectives.

As leaders we have to be perceptive of reality and of what is possible. We have to persuade our people of their intrinsic worth and creativity in a world geared to have them believe otherwise. We live in a world which is capable of allowing the invasion of a small nation-state like Grenada; which is capable of permitting the starvation of millions in the Sahel; which spends daily on nuclear weaponry, sums which make our balance of payments problem fall in the category of statistical error; which in geopolitical terms defines 'back-yard' asymmetrically as the geographical neighbourhood of the most powerful nation; which is disinterested in the well-being of small nations such as ours, until the front yard perceives our policies as non-exemplary. These are the realities surrounding our existence.

In this context therefore our Budget statement and debate must give clear direction to the nation. It must rally our people to make the ordered and orderly effort on which social and economic progress depends. It must signal to the international community, of which we are an inalienable part, our stance on the many issues and problems that beset efforts at economic resuscitation.

The salient characteristics of our strategy for survival remain the same as we stated last year; but the experience of 1983 suggests that it requires amplification and elaboration. We need to address frontally some fundamental issues and concepts. Lack of clarity or understanding will give rise to confusion in the minds of those on whom implementation depends – the people of Guyana.

Accordingly, Comrade Speaker, I invite our attention immediately to those fundamental issues on which I am convinced we need to spend some time. These are:

- (a) The Agricultural Thrust;
- (b) The Resource Allocation Problem;
- (c) Institutional and Structural Change; and
- (d) The Debt Problem.

B: THE AGRICULTURAL THRUST

Comrade Speaker, one element of the strategy of which I just reminded honourable members, referred to: 'a major production and export drive centered on non-traditional agricultural and manufactured commodities;'

In some ways our use of the description 'non-traditional' is a misnomer. Actually, the agricultural commodities to which we refer are 'non-traditional' in only one sense — they do not comprise a large proportion of either the value or quantum of goods we export. In all other senses, however, they are very traditional products — products we have produced for decades, but whose worth has been down-played by both those to whom they are unfamiliar and those of us who harbour malformed perceptions of modernity and worth.

Thus we have grown accustomed to taking for granted our large variety of vegetables, fruit, and their processed derivatives. We have not thought of them as commodities which people throughout the world would value and would wish dearly to have. Hamstrung mentally by our own conviction of their intrinsic worthlessness, we have not mounted imaginative production and export initiatives to reap the benefits of local employment and foreign earnings. Here is an attitudinal hurdle which we have to surmount if the strategy is to work. Let us revisit the realities of our agricultural resources in the context of today's world.

Both the Caribbean and Third World in general are chronically dependent on imports to satisfy their food needs. This dependence is set against a milieu of chronic foreign exchange shortage. The need to make maximal use of one's own agricultural resources is self evident. The necessity of the emphasis is further strengthened by recognition of the following fundamental political reality: a nation's inability to survive as a politically independent nation is dependent on its ability to feed itself from its own resources. The Damoclean threat of denial of food constrains the actions of nations.

In Guyana's case structural dependence primarily on bauxite, rice, and sugar is having its worst effects as the bauxite and sugar industries flounder in the context of recessive world markets.

These three actualities together determine: the definition which we have to give to the activity "agriculture"; its objectives; and the criteria which should apply in pursuing those objectives.

Priorities in Agriculture

The areas of emphasis where output from the agricultural sector is required to promote development comprise: Food; Clothing; Housing; Energy; Other non-food industries; and Arts and Craft. The range of activities therefore includes: Forestry and Fishing; the utilisation of grasses and herbs; and use

of both domesticated or cultured, and wild resources, all suitably allied with relevant technology.

The Objectives

For each of these areas of emphasis we have established broad objectives. In the area of "Food", there are basically two objectives — nutritional self-sufficiency; and maximisation of exports of a selected set of products.

By nutritional self-sufficiency we mean the provision through domestic production of a diet capable of meeting the calorific, protein and micro-nutrient needs of the population.

With respect to "Clothing", we will seek to maximise the local input to our existing installed processing capacity while also building up a raw material base and promoting the use of these materials at all levels of production including cottage industry.

For "Housing", the objectives include a renewed drive towards the satisfaction of housing needs with a minimum of imports, in furthering the goal of providing housing to disadvantaged groups. As in other areas, the maximisation of exports of a selected set of products is also to be pursued.

In relation to "Energy", our temporary status as a non-oil producing country demands that we pursue a sustained maximisation of the proportion of local energy needs that is to be satisfied from local materials. By so doing, we can contribute to the objectives of reducing the unit cost of satisfying consumers' energy needs, of providing increased employment, and of maximising export earnings.

The "Non-Food Industries" area is in some senses the most conceptionally challenging. Here the objectives comprise the conversion of agricultural products into reliable raw material bases for industrial consumption. This demands creative use of materials such as fibres and imaginative and aggressive marketing of products.

The "Arts & Crafts" area of emphasis has as its objective the promotion of a wider domestic use of local art and craft products. It involves maximising the use of indigenous raw materials to generate products for local and other uses, thereby widening self-employment opportunities, particularly in non-urban areas.

Criteria for Selecting the Product Mix

With the wider interpretation of what is meant by "Agriculture", the objectives described allow a diverse range of possible production activities. The opportunity exists, and the imperatives have probably never been stronger, for restructuring the economy in order to make it more self-reliant and far less susceptible to the vagaries of the international economic situation. However, this opportunity cannot be seized with greatest benefit to the

economy unless we apply some specific criteria in deciding what we should seek to produce from the wide range of possibilities.

An analysis of the current state of the economy, of the nature of the world in which we live, and of the urgency with which we need to proceed, yields the following guidelines:

- i) Choose products for which the direct and indirect import content is minimal – this derives from our shortage of foreign exchange.
- ii) Choose products for which there already exists, or there can easily be made to exist, familiarity with the techniques and technology of production – this derives from the urgency with which we need to proceed and the shortage of skills.
- iii) Choose products which lend themselves to diversification. In this context we also need to be aware of the concept of the product life cycle (i.e. of the fact that we cannot simply produce the same product all the time and expect the market to remain firm and available).
- iv) Choose products which have the greatest potential for optimising the use of by-products, or looked at another way, which allow a minimisation of waste.
- v) Choose products and processes which will reduce the real cost of commodities, particularly food to consumers.
- vi) Particularly with respect to food, choose a mix of crops so as to guard against the risk of failure of any one crop.
- vii) Choose products and production technology with concern for the effects on the environment, especially in the cases of energy and non-food industries, where over-exploitation of resources and contamination by industrial wastes could have harmful effects.

Required Policies and Initiative

We need to be continuously aware of the urgent need to conserve on the use of foreign exchange and simultaneously to maximise our earnings of foreign exchange through vibrant export performance. This twin requirement can only be satisfied, given our circumstances, if we are prepared to adjust many long held habits.

- i) **Nutritional Sufficiency versus Preference.**

The thrust towards national nutritional sufficiency based primarily on domestic production has certain implications. It implies changes in tastes; it implies consequential changes in food preparation techniques; it implies an appreciation of the nutrient values of local products. It requires the necessary technology and processes for making a reality of this potential.

Current preference is based on dietary habits -- habits formed during the period when local and foreign prices and access to foreign exchange allowed the luxury of a diet high in import content; habits formed during the period when our ideologically adopted view of progress implied that eating foreign was preferable to eating local -- which in turn are the product of information (in our case it was always misinformation) availability and incomes. Well both incomes and information have changed both quickly and extensively. Clearly the changing of norms and habits is not an overnight task. However, our present economic circumstances now insist that we all participate in the establishing of new norms and dietary habits. The State's role in this process has to be both responsible and positive not merely regulatory.

ii) Individual and Community Self-Reliance.

The necessary criterion of feeding ourselves at minimal cash cost, when taken together with the need to increase domestic food production as rapidly as possible, has direct implications for the organisation of production. In this regard, three main points merit specific mention.

Persons or households can minimise the cash cost of their consumption by using their own labour (often leisure-time labour) to produce that which they consume. This is the concept of the "prosumer" -- the individual person or household which produces wholly or in part for its own consumption. This aspect of production which manifests itself in a variety of ways such as kitchen gardens, small farms, orchards, or even a few fruit trees, is a part of our historical experience which has been neglected. We need to resuscitate the process and the practice. This imperative will become increasingly evident as the freeing of prices for agricultural commodities begins to be implemented. Pricing policies will be geared to ensure adequate and equitable returns to producers. In the short run at least this is likely to mean higher prices.

Second, communities need to be encouraged to pursue communal self-sufficiency; since by that pursuit whole communities can be assured of a continual supply of food items without over reliance on external trade. This policy will help reduce the demand for transport. For instance, many communities can organise to have enough milch cows to satisfy their needs for milk, thereby avoiding the complexities and expense of transporting an easily perishable commodity over long distances. In summary we need to pursue a policy of organising production so as to ensure that it takes place at every level -- individual, neighbourhood and region; and in every relevant institutional form -- personal, co-operative, private company and the state.

Third, self-reliance is a norm to be established, a habit to be learnt. In our schools we therefore need to focus on agriculture in its widest sense and to ensure that we teach through agriculture. If this is not to be seen as an exercise in making virtue out of a necessity, agricultural education needs to be informed by a few realities. Schools need to be equipped to transmit the principles and tools of twentieth century commercial agriculture. Drudgery and pre-Darwinian science need to be taken out of agriculture. In our educational programmes we shall have to reflect this imperative. In this manner, the views of individuals and communities will be freed to regard agriculture with the respect which is necessary – necessary, that is, if our best intellects are to be brought to bear on such complex areas of learning and technology as plant-breeding, agricultural engineering, farm equipment design and maintenance, food processing and preservation techniques, and agricultural marketing, to name only a few. It is the generation of trained cadres in all these fields which will eventually guarantee the establishment and continuation of a system which ensures that we can feed ourselves, and develop an economy structurally geared to survive international market turbulence.

iii) Export Policy

There exists an incontestable principle: We cannot export what we have consumed! If, therefore we are to maximise exports of agricultural produce, we must be prepared to adopt policies which not only elicit production but also restrain domestic consumption of exportable commodities for which there are domestic replacements.

It follows that we will have to adopt domestic pricing policies which allow producers to earn adequate and equitable remuneration for their products locally. At the same time producers should not be restrained from improving that remuneration by becoming vibrant exporters. In these circumstances, there may well be products which go primarily to the export markets, with only minimal amounts flowing to the local market. The Central Government will normally rely on the market mechanisms to allow local consumption to find its appropriate level, both in terms of quantity and price. This is the market subjugation which we may often have to allow to serve the objective of export maximisation.

Lest this policy be regarded as a movement away from a cheap food basket, let me hasten to add that our experience has shown that the domestic consumer does not usually benefit from an artificially low price. Price controlled goods are invariably utilised for huckstering in uncustomed goods. I shall return to this point later.

iv) The Livestock Industry

The dairy, small livestock including pigs and poultry industries will be expanded and special attention will be addressed to a reduction in their import content. Accordingly, for instance, work towards developing local feed rations will go hand in hand with a planned reduction in imported inputs.

Appropriate pricing policies to stimulate movement in this direction will also be undertaken.

v) Spécial Target Groups

All the policies mentioned so far have to be implemented with a degree of responsibility and sensitiveness which ensures that special groups such as old people, pregnant and lactating mothers, and children do not suffer deleterious nutritional consequences. Accordingly, the policy of adding nutrients to fortify foods for these special cases will be undertaken as necessary. Similarly, special consideration will be given to those transitional problems which might arise as communities and regions attempt to achieve nutritional self-sufficiency. In the final analysis, however, we must effect change as quickly as possible.

C. THE RESOURCE ALLOCATION PROBLEM

Comrade Speaker, perhaps the most complex and all-pervasive problem which faces any economy is that of how resources are best allocated. The intractable nature of this problem does not vary with the ideology of the country and neither centralised planning nor the magic of the market offers comfortable ready-made solutions to the issues which arise. Yet the de facto allocation of resources determines the performance of the economy.

It is therefore the task of those who would control the economy to use market and administrative levers to direct the flow of resources into areas of preference. Precisely what mix should be used will remain a moot point. There exists no unique solution, invariant for all time. It should suffice to say that market forces always exist and ours is the task to utilise them, sometimes by giving them free rein, at other times by constraining their operation, to achieve the resource allocations which our societal objectives require.

However, even in the context of these complexities, there exist some issues with respect to which we ought to declare an unambiguous stance. The first to which I wish to draw attention concerns the 'parallel market'.

The Parallel Market

Comrade Speaker, the parallel market is by definition that set out economic activities which takes place outside the formal, legal and accounting framework of the economy. Its existence arises primarily in response to the economic stringencies which the economy is suffering. Its main purpose is to divert resources into areas of activity for which it is perceived that the formal economy is not making adequate provision, i.e. once there exists a shortage.

Thus, for instance, in a situation of a chronic shortage of foreign exchange the parallel market competes with officialdom for foreign currency. The huckster's purpose is to use the foreign exchange to acquire scarce goods and services. Since few of the items bought in this way would command a place at the top of a Central Bank's list of national priorities, the parallel market actually diverts funds from priority areas such as medicines and inputs for productive industry. It often has the effect of impeding the development of new and more appropriate consumption habits. In these circumstances, the parallel market perforce offers higher exchange rates than the official institutions, and diverts and allocates resources through the unfettered operation of the price and profit mechanisms.

Whatever the official price of foreign exchange, the parallel market will bid a few percentage points higher. The system is one in which inflation, with all its ill effects, is endemic. Yet the unfettered pursuit of profit by the operators of the parallel market does nothing to aid and abet the recovery of the economy. Instead, the diversion of resources away from necessary activities exacerbates the problem of shortage, for the provision of basic goods and services which the parallel market operators themselves assume will somehow be provided is undermined by the currency they divert.

The problem is not so much one of immorality and illegality as of the persistent undermining of the economy's capacity to survive.

Take, for instance, a commodity whose price the Central Government attempts to control in order to protect the population as a whole from the vagaries of inflation. Hucksters immediately purchase the commodity in large quantities at the low controlled price, sell it at a higher price in neighbouring territories, and with the foreign exchange thus obtained import goods which they then sell locally at highly inflated prices.

Meanwhile, the economy has suffered the following effects.

First, there is the thwarting of the Government's attempt to ensure that the population at large receives the commodity at a reasonable price. Instead, an artificial shortage is created and its price shoots up if it is available at all.

Second, the producers of the commodity do not benefit from the higher prices.

Third, the foreign exchange benefits of exporting the commodity do not accrue to either the producer or the Government.

Fourth, the commodities bought with foreign exchange are often not the ones required by the productive sectors of the economy whose performance needs to be sustained and improved for the economy to recover.

Fifth, since the transactions all take place outside the legitimate system, the Government derives no taxes or other revenues from the activity. Yet that huckster reaps the benefits of all Government-provided services, including protection of his illegal gains, and the provision of essential services such as health, education, water and electricity, all of which require the very foreign exchange which he diverted.

Comrade Speaker, I could continue and amplify this list of ill effects almost limitlessly. The weak counter that these operatives are at least finding employment for themselves, is small comfort when we consider the ill effects on the economy.

The essential problem is that such activity makes it progressively more difficult to ensure that the resources generated by production and export can be re-invested to continue the cycle of production and export without which the economy will flounder. The more vibrant the parallel economy, the less successful will be our efforts to revive the overall economy.

Indeed, as these illegal transactions grow, the official statistics on imports, exports, and foreign exchange earnings become increasingly inaccurate, and our capability to make decisions as to how best to allocate resources is diminished.

In the final analysis, Comrade Speaker, we cannot afford to restrain the activity of the parallel market through increasing the resources allocated to policing the system. Such defensive expenditure is not directly productive. The solution lies in the hands of our people themselves. There can be no sellers if there are no buyers.

The virulent emergence of the parallel market is one of the most destructive trends we have witnessed recently in our economic affairs. We must move to contain it if our survival is to be assured. My hope is that the prominence which I have given it in this Budget Statement will have highlighted clearly the undesirability of the practice, and will serve to constrain the phenomenon through the reaction of the populace itself. In any event, we need to run a system where existing laws are enforced, particularly when we face as destructive a phenomenon as the parallel market.

It is popularly believed that the parallel market or huckster provides a genuine service and the State only prosecutes him because he makes available commodities that it is unwilling to secure. This is far from the truth. The huckster trade does not add to the flow of goods and services available to Guyanese, it reduces our productive capacity.

The above belief often gives rise to the suggestion that the parallel market be legalised. There is indeed a sense in which this can be done, namely licensing of hucksters. The heart of the problem is however not the selling end of huckstering but the means by which the foreign exchange is acquired. Every shoe brought in by a huckster means either less rice or toothpaste for local consumption (and therefore higher prices) or less fertilizers, school equipment or medicines. That cannot be legalised.

There are only three solutions to the problem:

- (i) make prices at least as high as our neighbours;
- (ii) public awareness;
- (iii) increased production to eliminate the Balance of Payments deficit.

The Exchange Rate

Comrade Speaker, since Wednesday 11 January, 1984 when we most recently devalued the Guyana dollar in relation to the US dollar, we have expended a fair degree of effort in explaining the significance of the new mechanism instituted to monitor and determine the value of the Guyana dollar. It should therefore suffice for me simply to reiterate that the mechanism of the basket of five currencies viz., the Pound Sterling, the Deutsche Mark, the French

France, the Netherlands Guilder, and the Japanese Yen, has been designed to stabilise the value of the Guyana dollar around a level of G\$15 to the basket. The twenty-five percent (25%) devaluation of the Guyana dollar in relation to the US dollar was done to restore this parity in relation to the basket.

I do, however, wish to focus attention on the exchange rate as a mechanism for determining the allocation of resources in the economy.

Devaluation changes relative prices through increases in the prices of all imports. These price changes benefit the economy only if they stimulate increased production for export or if domestic consumption is significantly switched from imports to locally produced commodities.

It is partly for this reason that I have decried the virulent existence of the parallel market which seeks to maintain the availability of traditional consumer imports at highly inflated prices, without regard to the new required allocation of foreign earnings.

For the same reason, we have to recognise that while the Government must be concerned with the impact of consequential price increases arising out of the devaluation, it could not shield the population from all possible price increases. Even if it were possible, such an attempt would inhibit the whole readjustment process which the devaluation is supposed to bring about. Expenditure must be redirected. Resources must be persuaded and allowed to go into the most productive avenues. They must not be used up in subsidising inefficient productive practices or in maintaining inappropriate consumption habits. The discomfiture of price increases has to be perceived as a necessary stimulus to the reallocation of resources without which the economy's productive performance cannot be made to improve.

In this respect, we need to look at the impact of devaluation on the price of fuel and electricity.

In our current status as a non-oil producing economy, we need to conserve energy and minimise foreign exchange expenditure on fossil fuels and related products and services. Accordingly, price increases in fuel and electricity have to be allowed to pass through to the populace to stimulate conservation through increased efficiencies and readjusted consumption patterns. At the same time consideration has to be given to protecting disadvantaged groups from the increases while insisting that large corporate users utilise these commodities more efficiently. Indeed the appropriateness of existing tariff structures has to be reviewed to ensure that they contain the correct mix of disincentives to consumption and incentives to production, especially for export.

May I revert, Comrade Speaker, to the matter of the mechanism of the basket of currencies. There remains unresolved the issue of the 'correctness' of the G\$15 level at which we have so far chosen to stabilise the Guyana dollar value of the basket. The 'correct' level is one which ensures that efficient net

foreign exchange earners are profitable in Guyana dollar terms over a reasonable period of time.

However, that is not the sole criterion of 'correctness'. Actually, the issue is an extremely complex one. We have therefore sought technical assistance from the Commonwealth Fund for Technical Co-operation. They will help us tackle the problem of determining the 'correct' level around which we should stabilise. The results of that research should be available early in the second quarter of this year; and we will then be able to give further consideration to the role of the exchange rate in the total package of policy measures needed in the whole economy.

Nevertheless, it is already clear that we have to view the instrument of the exchange rate in a different light from that in which we have hitherto viewed it. The history of our exchange rate adjustments highlights a certain rigidity in our attitude to exchange rate change. The sequence of dates of the most recent changes demonstrates this clearly: 9 October, 1975; 2 June, 1981; 11 January, 1983. In the dynamic circumstances of today's world we may well need to be more flexible in our use of the exchange rate instrument. We need to avoid the trauma of sharp changes followed by long periods of rigidity. All these aspects have to be recognised as we deal with the problems of resource allocation. It is true that exchange rate changes by themselves cannot resolve our economic problems. It is equally true that there is no benefit in adopting a policy which holds our exchange rate at a palpably inappropriate level, or links its change exclusively to the fortunes of an economy other than our own.

Prices

Comrade Speaker, the problem of achieving an appropriate allocation of resources depends in large measure on the adequacy of the pricing policies which we follow. Here I refer to prices in the widest sense, not only those of goods and services, but also for instance the price of labour, the price of foreign exchange, and the price of capital. Inadequate policies in relation to any of these prices will lead to undesirable deviations from the resource allocation which we deem desirable.

I have already dealt, as much as time permits, with the price of foreign exchange. Also, you will recall that in my comments on the agricultural thrust I indicated that the vocational farmer will generally be allowed to receive a market-determined price for his product.

We expect that the effect of this and the exchange rate policy will lead to various price increases. Accordingly, an individual's current money wage will buy him less of the goods and services which he habitually purchased. In that sense, real wages will tend to fall, and there will be pressures to increase money wage rates to compensate for the fall.

However, it is of vital importance that as a nation we understand clearly what

is being attempted. Without such an understanding we can only achieve our goals by accident.

May I deal first with the inappropriateness of trying to fully compensate employees for price rises. If such compensation were made there would be no reallocation of resources, no change in consumption patterns towards using more local produce, no improved profits from exports. In the circumstances everything will continue as before except that all activities will take place at a higher average price level. The burden of further inflation will have been imposed with no consequent increase in production.

This does not mean that no attention should be paid to adjusting wage levels. The price increases arising out of devaluation do not affect all wage earners in the same way. Considerations of equity therefore demand that attention be paid to the manner in which the burden of adjustment is distributed. This difficult exercise of how to adjust wages for various groups has to be carried out with the full involvement of the workers' representatives. It has to be conducted fully cognisant of the futility of aiming to compensate everyone for the price rises.

The most beneficial approach lies in not losing sight of the main objective – an increase in levels of production through the reallocation of resources away from pure consumption and into productive activities. Such an approach would lead to us highlighting at least two alternative ways of dealing with the threatened fall in real wages.

The first stems from recognition of the fact that individuals can mitigate the effect of price rises of many food items by utilising their leisure and that of their families to produce items for their own consumption. This reaction has the added virtue of increasing the overall level of production and, depending on the level of production generated, could add to the money income of the individual. It does not require much imagination to extend this idea into the possibilities of co-operation among groups of workers, or whole communities of families who by their joint efforts achieve significant degrees of self-sufficiency in a large number of food items.

A second method of dealing with the threatened fall in real wages involves a re-examination of the basket of goods and services on which the individual traditionally spends his income. This re-examination should employ the following tactics: (a) replacing as many imported items as possible by local substitutes, particularly those which can be produced by the individual and his household; (b) reducing wastage of items and services purchased by using them as efficiently as possible; and (c) dropping completely from the basket, at least temporarily, as many items as can be dropped without serious impact on one's actual quality of life.

All of these methods require attitudinal changes with respect to consumption patterns and waste. Individuals and households can effect these changes if

they are appropriately guided and motivated. It should be the task of all interested socio-political organisations to explore as fully as possible, ways and means of encouraging individuals to make these changes. They are real alternatives to wage rate increases simpliciter, and need to be applied.

There is yet another aspect to the matter of the price of labour, or wage rates, which needs to be highlighted. It is no secret that the organisational structures of many of our ministries and other institutions in the public sector need to be streamlined. Paying people more to continue to do little is both morally and economically debilitating. We therefore have to deal with the problem of organisational streamlining and not submerge it in arguments about simply raising wage rates. Opportunities for improved well-being exist through self-employment, particularly in agricultural pursuits. Since we have to bear the price increases we should at least take the opportunity to look at more efficient ways of using human resources, particularly in the public sector.

D. INSTITUTIONAL AND STRUCTURAL CHANGE

Conclude speaker, the issues on which I have so far focused all highlight the need for the continued application of policies to achieve efficient production and export.

In the 1983 Budget Statement these matters were in part treated as 'Category 2' of 'Specific Facilitating Policies'. There were indicated the initiatives to be taken with respect to: the restructuring of the Guystac group; special measures for the resuscitation of the Bauxite Industry; the reconfiguration of Ministries and devolution to the Regional system; the institution of a system of foreign exchange accounts to assist private and public sector institutions involved in the export thrust; and special initiatives in the Gold and Forestry sectors.

That Budget also highlighted policy measures designed to provide incentives to individual and corporate savings – Category 4 of the 1983 Budget policy section, and policies designed to enhance the co-ordination of planning and plan implementation – Category 5 of the 1983 Budget statement on 'Specific Facilitating Policies'.

I wish to report on the status of these initiatives and to indicate what appears to lie on the road ahead.

In general terms we have made significant progress in all the areas mentioned; but our rate of progress in the implementation of the changes has been less than we wished. We have had to deal with the twin problems of inertia of the system change, and the very real complexities of the changes themselves.

The Restructuring of Guystac

Over the last year we have been working continuously on this aspect with an Advisory Group composed of the investment banking houses of Kuhn Loeb Le'eman Brothers, Lazard Freres New York/Paris, and S. G. Warburg. The task was to prepare a blueprint of a new structure of the public enterprise sector. In this task, the Advisory Group has worked closely with a local counterpart Advisory Group co-ordinated by the Chairman of the Board of the State Planning Commission, and comprised of the Chairman of Bidco, the Chairman of Guysuco, and the Vice President of Guystac.

Two draft proposals have been received and we are now in the process of discussing those proposals with a view to appropriate amendment and implementation.

The main goals of the proposed reform are the following:

- (a) Allocating more efficiently the limited managerial and technical resources available to Guyana. This means that qualified managers and professionals should be given executive authority and

responsibility rather than positions of bureaucratic oversight over other managers.

- (b) Ensuring that senior Government officials are not bogged down with the task of day-to-day supervision of public enterprises. This will allow senior officials to concentrate on the more appropriate tasks of macroeconomic planning and sectoral policies.
- (c) Simplifying and unifying the mechanisms of supervision and control over public enterprises in order to avoid overlapping of different and sometimes conflicting sources of orientation, authority, and control.
- (d) Clearly separating managerial functions from policy orientation and from the control/appraisal function.
- (e) Giving managers of public corporations more autonomy and independence in operational decisions, subject to well-defined sectoral policies and social constraints defined by the Government.
- (f) As a quid pro quo for more autonomy, managers will be held responsible and accountable for the performance of their companies, with goals and performance targets being agreed at the outset.

The main features of the proposed structure under consideration are:

1. Separation of the utilities from the other state-owned companies;
2. Control of these utilities will be exercised through a "Supervisory Council" which will be the sole government source of policy;
3. Public enterprises will be under a regime of "constrained autonomy" exercised through "performance contracts";
4. The industrial and commercial companies are to be controlled by their own Supervisory Council;
5. Non-strategic companies can be divested or brought into joint ventures with private firms. The main purpose of the latter arrangement will be to enhance the corporations' capabilities – capabilities that are in relation to improved technology, managerial strengthening and entrée to new export markets.

The structure and powers of the Supervisory Councils and their associated Secretariat are also under consideration as are the main elements of the proposed Performance Contracts.

This latter concept derives from the French "Contrat de Programme" which is an agreement between the Government and a public enterprise. The agreement defines the relationship between the Government and the public enterprise as well as the main parameters of the enterprise's activity over a defined period.

The Performance Contracts for industrial and commercial companies will deal primarily with financial objectives subject to agreed pricing, resource allocation, and investment policies. With respect to the utilities, a prototype Performance Contract has already been prepared for the Guyana Telecommunications Corporation. These contracts are likely to be more complex than those for industrial and commercial companies.

It is our expectation that final decisions with respect to the proposed reform will be made during the first half of this year.

Meanwhile, however, we have addressed the problems of the rice sub-sector in general, and the Guyana Rice Board in particular. Comrade Speaker, the Guyana Rice Board is currently a part of Guystac and I therefore deem it fit to deal with the decisions concerning it at this juncture.

As you are aware, Comrade Speaker, the Government of Guyana has a firm commitment to as rapid as possible development of the agricultural sector, including agro-based industries. Accordingly, the Government has continually pursued appropriate investment in major infrastructural works which it considers a necessary condition for the growth of agricultural and agro-industrial production.

However, the Government is quite aware that such investment is not by itself sufficient. There exist a number of other requirements without which the development we seek cannot be realised. These requirements include inputs of machinery, spares, fertilisers, and other items, many of which still need to be imported with a timeliness and an adequacy of quantity which need to be assured.

In more fundamental systemic terms, also, we need to concern ourselves with the organisation of agricultural production and marketing, since it is that organisational structure which determines the levels of output derived from a given quantum of input. In this regard, the Government's special concern continues to be for the large numbers of small farmers. These farmers are in many ways the backbone of our agricultural production, and plans which take insufficient account of their well-being and their importance as a group, will redound to the detriment of the society as a whole. Arrangements must therefore ensure adequate returns to farmers while stimulating them to achieve greater efficiencies in production.

To the extent, also, that the Government is aware of the need to enhance significantly agriculture's export performance, we need to ensure maximum efficiency in marketing. This efficiency must manifest itself in many ways.

One of the most important of these ways is the feedback of information on developments and trends in the milieu of the market to producers. Not only must prices and related commercial strategies be stressed, but also the product life cycle. This area is one to which too little attention has been paid. It is therefore necessary to pursue the development of information systems which can inform farmers' production plans and activities.

In the area of export prices, the marketing function must draw on the combined strengths of the Government as an institution and on the initiative of private producers. That combination should be geared to ensure the most remunerative prices for producers without destroying the market or the production base through irresponsible competition. In this regard, there has to be a jealous guarding and fostering of the reputation of Guyana as a reliable supplier of quality products, and a resolute pursuit of increased market share.

Domestic prices of agricultural commodities have to be viewed in this context also. Here, the key challenge is to ensure a regime of prices which accord with local market and income actualities while taking into account the realities of 'border prices'. Clearly this issue is most sensitive for items which can properly be described as 'staples' in the Guyana context, and which therefore cannot be left entirely to the vagaries of market forces.

These have been the main considerations informing the decisions on the institutional framework and the price mechanisms for the rice industry.

The new institutional framework which is being established this year includes the following:

- 1 A rationalisation of the management activities of the Guyana Rice Board (GRB) by clearly separating into different institutions the two principal activities, milling and marketing.
 - (a) The Guyana Rice Board, divested of its drying, milling and storing responsibilities will be transformed into the Guyana Rice Export Board (GREB) with basic responsibilities for:
 - (i) Negotiating and entering into Government to Government and Government to non-Government contracts. GREB will be a principal in these contracts.
 - (ii) Fulfilling these contracts: GREB will procure its rice for export by way of Suppliers' Contracts, where necessary.
 - (iii) Monitoring and guiding the development of the domestic rice sector in response to trends and changes in the export markets for rice and rice products.

- (iv) Advising the Government and the Industry in general on marketing prospects. It will be involved on an on-going basis in marketing research and analysis, establishing trends and preferences in export markets with a view to developing an information base adequate for strategic planning of production and exports of rice and rice products.
- (v) Certifying exporters wishing to enter into contracts for the export of rice as well as advising on all matters pertaining to these arrangements. Private exporters will be permitted to export rice that is surplus to the requirements of the CARICOM market and other markets subject to Government to Government contracts.
- (vi) Certifying the export quality of rice.

The export Storage Facilities will be operated under the supervision of the GREB. Responsibility for overseeing the storage and preparation of rice for export, especially to those markets for which GREB is the exporter, will be with the GREB.

Private exporters, who have negotiated their own markets will be paid the full price negotiated less the agency fee charged by the GREB. These exporters will have to pay for the services provided by the GREB.

The GREB will finance its operating costs by these fees which will be based on a percentage of the value of the export contracts. Its buying and selling operations will be managed through a separate trading account on behalf of the Government.

- (b) The rice drying/milling/storage activities will be transferred to a new specialised institution, the Guyana Rice Milling Corporation (GRMC), responsible for conducting such activities on a commercially viable basis.

This new Corporation, in addition to providing rice to the GREB for export, will be the sole body responsible for marketing rice on the domestic market. In discharging this responsibility, the GRMC could nominate individual private millers and other appropriate entities as agents responsible for supplying rice to particular local areas. It will also have the authority to procure rice from millers under Suppliers' Contracts.

2. A functionally autonomous Grading Authority will be created to maintain technical standards, consistent with international classifications, for grading paddy and rice. This Authority will be the sole entity for certifying grades of paddy and rice. The basic functions of the Grading Authority will be:

- (a) To grade and certify all paddy arriving at the mills;
- (b) To grade and certify all rice milled for sale both locally and overseas;
- (c) To assemble and disseminate to the Industry all relevant data on grading and quality control;
- (d) To train, certify and license graders; and
- (e) To license mills, and to inspect their operations with a view to facilitating improvement in their quality control and other operations.

In addition, steps will be taken to rationalise the industry's research and extension facilities. An Agricultural Research Institute will be established. Due attention will be paid to all aspects of rice production, including the development of improved varieties and the establishment of an effective extension service.

Research and extension activities will be the responsibility of the Central Government.

The revenue from rice exports in excess of operating costs including the agency fee, will be used by the Central Government to assist in financing development.

The Price Determination Mechanism

The Planning Department of the Ministry of Agriculture will be responsible for the annual review of these prices. These reviews will take place before the second rice crop and the new prices will be announced before the end of August of the same year.

The cost of production will be based on the actual costs obtaining at the end of the first crop and the estimated costs for the second crop.

The new formula for determining the price of paddy will ensure compensation of small farmers for those costs of production over which they have no control. It is recognised that farmers owning machinery will benefit more since the rates at which they hire out their machines are higher than the economic costs of these services. This approach, however, safeguards small farmers against the unavoidable rental rates which they have to pay to machinery owners. Also to the extent that small farmers improve on those elements of the cost of production over which they have control (i.e., increase their production efficiencies) their overall revenue earnings will be greater. The formula also has the added advantage for farmers in that the yield is based on the actual average for the previous year and therefore any improvement in

yield which the present level of technology permits will entail additional income to farmers for the current year.

The price of rice will be determined by adding to the price of paddy an adequate margin for the costs of milling and other associated conversion costs. The domestic retail price of rice will be determined by ensuring adequate retail margins for retailers.

The policies and the pricing mechanism outlined above will be, of course, subject to periodic review in order to assess their efficacy and to serve as a basis for necessary improvement.

BAUXITE

May I turn now, Comrade Speaker, to those matters relating to the Bauxite Industry.

We received, late last year, the evaluation reports from the two companies which agreed to look at the industry — Kaiser Aluminum Technical Services Incorporated (KATSI), and United States Steel Engineers and Consultants (USEC). Essentially, the reports confirmed the correctness of many aspects of our own analyses but shed little new light on possible solutions to and strategies for dealing with the critical problems of marketing bauxite. In summary we have to make final decisions on the best way of:

- (1) Strengthening the day-to-day operation and management of the industry;
- (2) Devising and implementing an appropriate marketing strategy, particularly for calcined bauxite; and
- (3) Raising the money to implement the capital works which have been consensually agreed as necessary for technically efficient operations.

The issue of strengthening day-to-day management requires us to choose an appropriate model of expatriate management involvement.

The willingness of some customers and prospective lenders is linked to the preference of these sources in relation to both the management and marketing solutions.

Comrade Speaker, these are some of the main complexities to be faced in dealing with this problem. We expect to effect a resolution by the middle of this year. Meanwhile, arrangements have been made to assist the industry by relieving it of some of the burden of social costs it has borne since nationalization. The Central Government will also relieve the company of the interest rate burden of its end December 1983 overdraft with the Guyana National

Co-operative Bank by providing a loan of G\$186mn. This eight (8) year loan will bear interest at the same rate (14% per annum) as the Central Government borrows from the Central Bank, and will include a moratorium of three (3) years on principal repayments. The industry is expected to be returned to profitability within those three (3) years.

The answer to the question of how the holding company Bidco will relate to its subsidiary Guymine in the matter of marketing will be resolved as a part of the management and marketing model finally adopted.

Reconfiguration of Ministries and Regional devolution.

Comrade Speaker, the restructuring already done for Ministries is well known. Essentially, it has involved the establishment of functional groupings or clusters such as Production and Social Infrastructure, each under the guidance of a Vice President. The next step involves the streamlining of the individual ministries within each cluster to ensure the adequacy of their internal organisations for performing the tasks of sectoral and sub-sectoral monitoring, planning, policy formulation, and regional coordination.

This intricate task will be undertaken this year. Clearly, the precise outcome of the exercise cannot be forecast. However, since the intention is to improve efficiency, the task is not unlikely to lead to significant reallocation of personnel both among ministries, and between ministries and regions. We have no option but to improve the labour efficiency of our bureaucracy.

With respect to the internal reorganisations of ministries, Comrade Speaker, I however wish to signal two significant changes which are programmed to take place this year.

The first involves the establishment of a Debt Recording and Management Unit in the Ministry of Finance. The essential task of this unit would be to establish and operate a system of monitoring all external debt – government, parastatal and private sector – incurred by the country. In this way, there would be centralised information about all the country's external liabilities. It is clear that in our current circumstances, precise information on the country's external liabilities and some measure of guidance on and coordinating of the incurring of new liabilities is of paramount importance to our attempt to restructure the country's debt profile.

The second change refers to the Ministry of Manufacturing and Processing which will cease to be a ministry, and will be transformed into a corporate entity. This is intended to give it the flexibility of operation which is required to deal with the promotion of the manufacturing sector.

Comrade Speaker, the process of devolution of authority and responsibility to the Regions has not worked smoothly. The main obstacles have been an insufficiency of skilled administrators in the regions, the absence of adequate data gathering and information systems, the overall newness of and our consequent unfamiliarity with running a regionalised system effectively.

The desirability of devolution is still evident. It is necessary therefore to correct the deficiencies which have become apparent. In some ways, the streamlining of individual ministries will help to provide some of the skills which we need in the regions. However, our objective should be to develop talent for managing the affairs of the regions in situ.

The establishment of appropriate data gathering and information systems is a matter with respect to which we are relying in part on technical assistance. For example, a component of the technical assistance project which we have with the Yugoslavs in planning includes such assistance. Also, we are taking initiatives to secure assistance from India for the establishment of appropriate information systems in relation to monitoring and planning of agricultural activities on a regional basis.

Activation of System of Foreign Currency Accounts

From 24 October, 1983 a system of "Foreign Currency Accounts" was instituted in keeping with the policy objectives outlined in the 1983 Budget speech. Ten private sector firms were initially selected for operating these accounts through locally based commercial banks. These Accounts are designed to facilitate the importation of critical spares and inputs for firms whose activities are deemed pivotal to the national export thrust.

The system is based on the principle of automatic allocation of an agreed percentage of an exporter's earnings. The exporters chosen to participate in the new system operate in the areas of timber, processed food, and manufacturing exports.

These initiatives are being monitored to ascertain how the system might be refined and extended to include other firms in the public, private and co-operative sectors.

Special Initiatives in the Gold and Forestry Sectors

With respect to production of gold, Comrade Speaker, in 1983 we finalised and introduced a system of incentives and penalties designed to increase the rate of delivery of gold to the Guyana Gold Board.

Foremost among these measures was the establishment of a pricing formula for purchases by the Board. This formula linked the US dollar price, as determined by the London Gold Market Daily Fix for refined gold, to the Guyana dollar price which miners are offered. The formula, which was introduced effectively from the fourth quarter of 1983, multiplied the US dollar price by a factor of 4.9 to derive the Guyana dollar price. During the last quarter, inflows of gold more than doubled to achieve an average monthly rate of about 1,000 ounces, equivalent to an annualised value of approximately US\$4.5 million.

In response to the recent 25% devaluation of the Guyana dollar in relation to the US dollar, the factor of 4.9 has been increased this year to 6.03. This will take care of increases in costs of production which miners will face. We therefore expect the rate of sales to the Gold Board to be at least maintained.

Other measures designed to facilitate miners' acquisition of imported inputs for their activities continue to be pursued.

The Forestry sector has attracted our special attention, especially in the light of what appears to be attractive marketing opportunities for timber and timber products, including pre-fabricated houses within and outside of Caricom.

The sector is however beset by a variety of problems, ranging from storages of spares and relevant processing and preservation capacity through poor marketing. Various initiatives to redress these problems are being taken. These have included the establishment of foreign accounts for timber exporters, and an initiative to establish a joint venture project involving public sector, and local and foreign private sector entities in the area of prefabricated housing. It is intended that these initiatives will continue to be pursued during 1984.

The charcoal industry which deserves pride of place as an alternative energy source, and as a potential foreign exchange earner has not been a success story during 1983. Much needs to be done during 1984 to organise the systematic production of good quality charcoal and to seize the opportunity which it provides for the utilisation of waste from the timber industry.

Saving Schemes

During the latter half of 1983 three savings schemes were established to provide incentives for individuals to save proportions of their income for a specified period of time and for specified purposes. A committee for managing and operating these schemes was appointed by virtue of the Savings Schemes Act 1983. The schemes encompassed the following types of investment:—

- (a) A Deferred Income Account (D.I.A.) which allows contributors to set aside any amount of salaried income in any calendar year and benefit from tax relief on the amount deferred.
- (b) A Home Investment Account (H.I.A.) which is designed to assist contributors to acquire their own homes through building, purchasing, or paying off existing mortgages. These savings can also be allocated to repairing or renovating their own homes. The minimum allowable annual contribution is G\$500 and contributions earn interest over a period at 5% per annum. Both the contributions and the interest earned are tax deductible.

- (c) A Personal Retirement Account (P.R.A.) which provides both the contributor and his employer with the opportunity to make tax deductible contributions which earn interest at 5% per annum below the prime rate, and mature in a maximum period of twenty years to provide the individual with a tax free retirement income.

Total contributions to these schemes during 1983 amounted to \$7.6mn of which contributions by teachers are still to be apportioned to each of the specific schemes. The bulk of the other savings have been deposited in Deferred Income Accounts.

During 1984, it is expected that contributions to the Schemes will exceed \$12.0mn. of which about \$9.0mn. is expected from teachers.

E. THE DEBT PROBLEM

In the previous section of my statement, Comrade Speaker, I alluded to the establishment of a Debt Recording and Management Unit in the Ministry of Finance. This decision was prompted by the need to have up-to-date information on the status of our debt, particularly the external debt. At present, the most up-to-date estimate which we have on the external debt refers to the position as at 30 September, 1983.

Before I present that information, I wish to preface it with some remarks which I consider relevant.

There has from time to time been speculation on the exact size of Guyana's external debt. The perception that it is exceptionally large in comparison with economic aggregates such as our Gross Domestic Product, has led a number of ill-informed commentators to raise the concept of 'national bankruptcy'. I wish to deal with this alarmist approach, by quoting from the report of Antonio Ortiz Mena, President of the Inter-American Development Bank, to the 24th Annual Meeting of the Board of Governors held in Panama City during March 21 to 23, 1983.

"In the first place, it must be pointed out that the legal concept of commercial bankruptcy resulting from economic and financial insolvency of an enterprise is not pertinent to a nation state. The terms that define the concept cannot be applied to sovereign states; neither can a country's external debt, even in some extreme cases, be said to exceed the value of such country's endowment of human and natural resources.

In the second place, consideration of the size of the external debt of a country has no great economic significance. As we know from Latin America's experience, the often repeated overall debt of some \$300 billion at the end of 1982 includes all of the external obligations of our countries without reference to their maturities. In actual fact, the difficulties which presently confront our region spring not from the total amount of its debt but rather from the incapacity of many of our countries to meet the interest service and to repay a portion of the principal that fall due in the short term".

Comrade Speaker, I submit that the quotation speaks eloquently enough for itself. It reflects accurately, also, the correct perspective from which Guyana's external debt should be viewed.

As of 30 September, 1983, Guyana's external public debt was estimated at around US\$700 million. About one-third is owed to multilateral agencies, slightly more than 40% is owed to bilateral agencies, while amounts owed to various financial institutions, for suppliers' credit, and through loan stocks together comprise about 18%. Nationalisation payments account for about 7.5% of the total.

When measured in Guyana dollar terms at current exchange rates this indebtedness is approximately G\$2.625 billion.

Servicing of this debt in 1984 would require about US\$120mn (G450mn), some 42% of our projected export receipts for the year.

This is clearly an unsustainable situation which can be resolved only by methods which include rescheduling of our external debt. Indeed, it has been this fundamental problem of international liquidity which has led to a build-up in the arrears of our medium and long-term debt payments to an estimated US\$32mn as at 30 September, 1983.

Due to this illiquidity, commercial arrears relating to payments for imported goods and services amounted to about US\$250mn on 31 December, 1983.

These circumstances make it imperative for us to boost export production and restrain consumption, particularly of non-essential imports. Furthermore, in order to overcome this liquidity problem it is necessary to seek assistance urgently on the most concessionary terms possible from the international community.

F. 1983 ECONOMIC PERFORMANCE

The production sector of Guyana has undergone a marked decline over the last three (3) years. This decline reflects in part the global depression. It does in addition also point to the cumulative and deleterious impact of the post-1980 production crisis. Specifically, a dramatic fall in bauxite output has served to reduce foreign exchange earnings which in turn has led to marked reduction in the country's capacity to acquire imported inputs for its main sectors.

During 1983 the economy experienced yet another fall in real output. GDP fell by some 9.6 percent over the year. The most significant area of decline was mining and quarrying where there was a 22 percent fall in output. The reasons for this state of affairs are well known and, as already indicated, no domestic change is expected for some time.

Sugar production also turned out to be some 36,000 tons less than planned. The main problem facing this industry was the inadequacy of foreign exchange to finance its capital programme. Sugar, the major net foreign exchange earner in Guyana was therefore unable to carry out the necessary rehabilitation of its plant and, as a consequence, productivity deteriorated and costs escalated.

The unavailability of machinery in the rice industry so inhibited both land preparation and harvesting that 1983 output fell substantially below the 1983 target.

In the remainder of the agricultural sector beef, fish and milk production in particular provided a welcome contrast to this picture of declining output. Beef production, although below the target was 2.1 percent in excess of the 1982 level. In a similar vein milk output in 1983 was some 23 percent above the 1982 output level.

Manufacturing industry fared particularly badly because most enterprises are not only heavily dependent on imported inputs but they are also net foreign exchange users.

Needless to say this shortfall in overall production was reflected in poor export performance. Export earnings for the three major commodity exports were 27.5 percent below the amount budgeted although only 18.8 percent less than 1982. Total export earnings fell below both the 1982 and the targeted levels. So, although there was a contraction in the value of imports over the year the deficit on current account did not fall to the level of \$339mn. as planned. Arrears in external payments therefore, once more climbed markedly.

In the face of this problem the debilitating impact of the parallel economy becomes particularly difficult to sustain.

Public Sector Financial Performance

The performance of the economy can be expected to have a marked impact on the financing of the public sector. An overall public sector deficit of \$453mn. was intended to be financed via \$262mn. from net capital inflows and \$191mn. from internal borrowing. In the end the public sector generated a deficit of \$727.34mn.

However, the net capital inflows hardly materialized and other internal borrowing only generated around \$140mn. Consequently net borrowing from the banking system turned out to be over \$491mn., some \$331mn. above the budget and undoubtedly an intolerable level as may be gauged from the general rise in the prices of commodities.

It need hardly be stated that this type of programme is not sustainable and therefore not consistent with good fiscal husbandry. Financial indiscipline on the part of the traditional public service, and imprudent public enterprise policies in the face of a global depression will have to be addressed resolutely in 1984. The Central Government's revised current expenditure for 1983 exceeded the amount budgeted by some \$88mn.

In this context a major concern must of course be the level of net external inflows. It is well known that to date no programme has been concluded with the IMF. The influence of this institution on the multilateral and private financial agencies is also well known. The shortfall in inflows was attributable to the blocking of the MMA Contract III loan application to the IDB by the U.S. In addition there was a shortfall of some \$16mn. in the funds expected from the IBRD. The main areas to have suffered from this drying up of funds were power (esp. GEC) and the fledgling Demerara Woods Limited.

G. THE OUTLOOK FOR 1984

I have now dealt, Comrade Speaker, with the actual economic performance during 1983, as well as the main issues and analyses underpinning our economic strategy.

In discussing those issues, I adumbrated some of the policies which we have already begun to apply and which we will develop during 1984.

The immediate tasks which confront us are:

- (1) making the public sector more efficient in order to restore the financial viability of public sector corporations;
- (2) managing the reallocation of resources, both human and financial, into production, particularly for export, through price and administrative initiatives;
- (3) organising our planning, implementation, and monitoring mechanisms to achieve maximal participation in the agricultural thrust;
- (4) maintaining our social services, particularly those related to health and education, in the face of an overall scarcity of resources, both local and foreign;
- (5) finding ways to reactivate already installed, but currently under-utilised, productive capacity;
- (6) redirecting our patterns of trade and other international relations to facilitate achievement of the objectives already outlined;
- (7) ensuring a synthesis of effort among public sector, private sector, and cooperative entities;
- (8) implementing the capital programme with maximal efficiency;
- (9) pursuing the re-scheduling of our external debt and the garnering of external resources to support the overall 1984 programme; and
- (10) liaising closely and continuously with workers and their trade unions to ensure maximal industrial peace and creative effort in the stringent economic circumstances which we expect to characterise the year 1984.

Comrade Speaker, without underplaying the importance of any of these ten major tasks, I wish to make specific comments on three of them.

The sugar industry is expected to be the prime net earner of foreign exchange for the economy in 1984. Exports of sugar are targeted to be 247,000 long tons at a value of G\$281mn. This is approximately one-third of total receipts for merchandise exports. Accordingly, every effort must be made to secure the performance and stimulate the process of the industry's return to financial viability.

Already, the industry is geared, as a net earner of foreign exchange, to reap the benefits of higher Guyana dollar earnings occasioned by the recent exchange rate adjustment. However, it is not sufficient to simply relieve the industry of the burden of an overvalued local currency. We need to take at least two other initiatives.

The first is similar to that applied to the Bauxite industry. It involves the Central Government making a loan of approximately G\$144mn. under the same terms as those applied to the Bauxite industry viz., eight (8) years with a three (3) year moratorium on repayments of principal.

Interest will be charged at 14% per annum. This initiative will relieve the industry of the penal interest rate burden which its current high overdraft level is imposing.

The second initiative arises out of the comments which I made earlier about the parallel market in a situation where commodity prices are held artificially low by administrative action. The industry needs to be allowed to earn reasonable domestic revenues. The automatic burden of continuous subsidy to the economy as a whole has to be progressively lifted.

Local sugar prices were last adjusted in 1978. Prior to that date they had remained fixed since 1951. Our intention now is to increase the price received by Guysuco for sugar to G\$0.30 per pound. This figure is still below the unit cost of production. However, in the course of 1984 we will establish an index for linking the local prices of sugar to the cost which a reasonably efficient producer should incur; and we will set about determining the time period over which we can move the domestic price of sugar significantly closer to that cost.

Additionally, Guysuco will be relieved of the burden of distributing sugar. All sales will be made ex factory, and with specific reference to Region 4, a method will be devised to have the Regional administration undertake the responsibility of distribution.

Also, in order to ensure the adequate distribution of sugar on the retail market, the retailer's margin will be revised to a realistic level. It will now cover adequately transportation, handling, carrying, and packaging costs as well as overheads. All these changes are likely to result in retail prices of the order of 33 to 35 cents per pound for sugar.

The second set of comments which I wish to make concern the nature of the effort which has to be made to preserve our social services, particularly health and education.

The basic competition for resources in the economy is between the production sector and the social sector. In the context of the analyses which I have presented, we have to come down in favour of the production sector for our own survival. How then, might we derive the resources to maintain the services at a reasonable level?

The answers, Comrade Speaker, lie in the direction of self-reliance. First, every encouragement will be given to schools to contribute to the financing of their operational costs through engagement in economically productive and financially viable undertakings. It has been estimated that approximately G\$8 million can be raised through these efforts.

Secondly, Parent-Teacher Association and service organisations will be encouraged to mount fund-raising activities to help finance expenditure of educational institutions in their communities.

The resources raised by these two types of activities will be deployed by the institutions on whose behalf the money is raised, subject to orderly accountability for expenditure being ensured.

In relation to the education sector's expenditures on text books, we need to put a brake on waste and abuse by the recipients of the service. Accordingly, a refundable textbook deposit scheme will be introduced. Return of textbooks in good condition will lead to refund of the deposit. Also, deposits may be used as contributions to the payment of examination fees. Where payment of the deposits, which will be on a per child basis, will clearly impose economic hardships on a household, mechanisms will be put in place to allow a waiver of the deposit. In brief, the scale of deposits will be as follows per child receiving the free textbooks: Primary schools – \$10; First and Second forms of Secondary schools – \$20; Third and Fourth forms – \$25; Fifth forms – \$35; and Sixth forms – \$45.

With respect to the health services, consideration of both our financial stringencies and the necessity to curb abuse has led to discussions to raise outpatient charges for drugs to the levels of their cost of acquisition (i.e. not including consumption tax); to increase the rates for private rooms in public hospitals to their market rates; and to apply a regime of reasonable charges for Physiotherapy services. In all these cases, special concessional arrangements will be made for special categories such as diabetics whose drugs are expensive and old age pensioners.

Comrade Speaker, the third category of comment which I need to make concerns some specific uses of the price mechanism to achieve the objective of raising revenues for the overall programme. In the main, these are as follows:

- (a) Licences for betting shops will be increased from G\$250,000 to G\$350,000 per annum;
- (b) The Exit Travel tax will be increased from G\$25 to G\$50;
- (c) Even though there will be no increase in the licence fees for hucksters, nevertheless all hucksters will be required to have a licence.

All these increases will apply with immediate effect.

Comrade Speaker, I have a continuing concern about the impact which the non-official transactions now taking place in the economy are having on the accuracy with which the traditional statistical measures reflect actual production in the economy. This is a technical matter which we are investigating. However, it is small comfort to have the normal uncertainties of projections compounded by this relatively new phenomenon. With all these caveats I now present a summary of the likely macroeconomic parameters for 1984.

We expect exports of goods and services to rise in current dollar terms to slightly more than one billion Guyana dollars. The main contributors will continue to be bauxite, sugar, and rice in that order of descending contribution. Together they account for about seventy percent (70%) of the export earnings.

Imports of goods and services are expected to rise by about 35% from their 1983 level to about one and a half billion Guyana dollars. Within this total, fuels and lubricants account for slightly more than one-quarter of the expenditure, with capital and intermediate goods accounting for about 32% and consumer goods accounting for slightly less than 8%.

Accordingly, the balance on goods and services is a negative one of nearly a half a billion dollars.

In terms of the Central Government's operations we expect to realise Current Revenue of G\$554 million, (about 2% less than in 1983) and this is insufficient to finance the Current expenditure of G\$789 million, let alone contribute to the debt funding and repayment requirement of G\$128 million to cover principal repayments. There will therefore be a current deficit (excluding debt funding) of G\$235 million.

Capital expenditure, not including transfers to Public Corporations of G\$384 million, is pitched at G\$353 million. This is the level arrived at after meticulous pruning to ensure their relevance to our economic strategy and reasonable expectations of net external borrowing of G\$172 million by the Central Government.

It is expected that the Public Corporations, when taken together, will contribute nothing to the cash resources available to the Central Government. The cash surpluses of a few Corporations will almost be offset by the cash losses incurred by others (primarily Guysuco – G\$124 million and Guymine – G\$60 million). If depreciation and losses due to revaluation of loans are included in the calculations for these two corporations, Guysuco's operating loss will amount to about G\$141 million while Guymine's will be about G\$127 million.

These overall poor performances are expected to culminate in a national economy performance which, as measured in terms of Gross Domestic Product, is not likely to be better than that of 1983 in real terms. The major uncertainty lies in the answer to the question as to the likelihood of timely arrangements being put in place to make critically necessary imported inputs available to the productive sectors.

H. CONCLUSION

Comrade Speaker and honourable members, I am seized of the fact that the picture of 1984 which I have presented, the strategies which are being recommended, and the prognoses for speedy resuscitation of the economy, all appear very daunting. However, that is the reality.

Yet, never in the history of our independent nation have we been presented with as pressing an opportunity, nor as powerful a set of reasons to restructure our economy. Let me remind you that we are considering a territory blessed with an abundance of natural resources, especially agricultural potential. Ours is the challenge to reorient our attitudes and our efforts to realise the potential with which our country is endowed.

I can offer no comforting solution which will allow us to survive and prosper. We ought not to be clinging resolutely to old ways, old practices, old habits of production and consumption in a world whose very dynamism says that continual and timely change is a prerequisite for survival. I do not believe that as a nation we are incapable of adequate, imaginative response. 1984 will be a year in which our resourcefulness must be made to triumph over the great odds which we face.